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TO RUEHC/SECSTATE WASHDC 2864
INFO RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
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RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCNCIS/CIS COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 5223
RUEHBJ/AMEMBASSY BEIJING 2963
RUEHKO/AMEMBASSY TOKYO 2828
RUEHIT/AMCONSUL ISTANBUL 3467
RHMFIUU/CDR USCENCOM MACDILL AFB FL
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC

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SENSITIVE

SIPDIS

STATE FOR SCA/CEN; EEB
ENERGY FOR EKIMOFF/THOMPSON
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SUBJECT: TURKMENISTAN: WHERE WILL PETRONAS SEND ITS CASPIAN GAS WHEN IT STARTS FLOWING?

[1](#)1. (U) Sensitive but unclassified. Not for public Internet.

[1](#)2. (SBU) SUMMARY: Petronas officials are making confident statements regarding the company's goal of delivering its first natural gas from offshore Block 1. The company is estimating it will begin delivering five bcm per year of gas, ostensibly to Turkmen state concerns, in late 2010. The company has almost completed an offshore terminal and a gas processing facility north of Turkmenbashi, and has begun construction of a pipeline that will connect its offshore wells to the processing facility. Company representatives are keeping mum about the details of precisely how and in what direction the gas will be transported to a market, but they may have initially planned to put it into the proposed Caspian Littoral pipeline for transport to Russia. The old Central Asia Center 3 (CAC-3) leading to Russia is too decrepit and lacks even a modest capacity. With plans for the Littoral pipeline remaining unclear, it seems likely that Petronas, along with other companies operating offshore, may need to develop multiple, alternate plans for getting their production to market, if they haven't already.
END SUMMARY.

[1](#)3. (SBU) On May 15, Malaysian energy company Petronas President, Muhammad Hasan Marikan, met with President Berdimuhamedov to discuss the company's activities in the country and announced that Petronas will begin producing five bcm of natural gas per year from its operations in offshore Block 1, beginning in the second half of [1](#)2010. Marikan also noted that the production volume could potentially increase to ten bcm in the longer term. Official Turkmen media reported that President Berdimuhamedov gave Marikan "specific instructions regarding the directions of natural gas transportation," but the media did not provide further information on the implied directions.

[1](#)4. (SBU) Petronas has been operating in Block 1 under a 25-year production sharing agreement (PSA) since 1996 and has invested some \$2.3 billion in developing the block's oil and gas potential. Petronas began commercial production of oil from the Diyarbekir offshore oil field in May of 2006 and has produced 800,000 tons of oil over the last three years. Currently, the field produces about

6,000 barrels per day.

15. (SBU) The majority of the company's anticipated gas production will come from the Magtymguly gas field, where the company has already drilled four production wells and is in the process of drilling a fifth. Petronas has already started laying gas pipelines to transport natural gas 70 kilometers, from the wells to the Turkmen shore. During an April visit to the coast, Political Officer saw the company's new shore-based terminal and a gas processing plant in Kiyanly, 30 kilometers northwest of Turkmenbashi, which appeared to be nearing completion. Petronas is also reportedly building a 53-kilometer pipeline to transport gas from the new processing plant to an existing export pipeline. (NOTE: It increasingly appears that Petronas is viewing future natural gas production as the main income generator, rather than oil. END NOTE.)

16. (SBU) The only export pipeline located such a short distance from Kiyanly is the Central Asia Center 3 (CAC-3) pipeline, which transported natural gas from Turkmenistan's western deposits to Russia in the Soviet period. The CAC-3 had not been used for about ten years, but the Turkmen Government again began using it to export very small quantities of gas about five years ago. (NOTE: The Caspian Littoral Pipeline project that Russia, Kazakhstan, and Turkmenistan agreed to build envisions a larger export line paralleling CAC-3, but Turkmenistan has been dragging its feet on implementing the agreement. END NOTE.) Petronas Production Manager in Turkmenistan, Abdul Halim, told Embassy officers on May 26 that the company plans to sell its gas to the Turkmen Government and let the government handle the export issue, since the company prefers to distance itself from the geopolitics of regional gas export. He

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predicted that the gas the company produces will most likely be sold to Russia and be transported through an existing pipeline infrastructure, but he did not elaborate further.

17. (SBU) COMMENT: Although it seems obvious that the most convenient route for exporting Petronas' natural gas will be to Russia, such a route going from Western Turkmenistan north to Russia remains in a proposal phase and its future remains uncertain. The aged CAC-3 is already transporting State Concern Turkmengas' production, and would not be able to accommodate Petronas' three bcm. Petronas, however, expects to begin delivering gas supplies to the new gas processing facility by late 2010. It is giving no indication that it has a "Plan B" regarding where it would deliver the gas if the proposed Littoral pipeline does not get off the ground by then. The current reality is that, if the Littoral pipeline does not get underway soon, Petronas and other offshore enterprises will not have sufficient infrastructure to carry their production to any market. They should be developing alternative markets to ensure they have an outlet if needed. END COMMENT.

MILES